
Chitterne Parish Council

Internal Audit Report 2017-18

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Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported as part of the Council's Annual Governance and Accountability Report (AGAR) process.

Internal Audit Approach

In undertaking the review for 2017-18, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end AGAR. Our programme of cover has, as with all our clients, been designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the year's AGAR process, which requires independent assurance over ten internal control objectives.

Overall Conclusion

We have concluded that, based on the satisfactory conclusion of our annual programme of work, the Council has again maintained generally adequate and effective internal control arrangements. Detail of the work undertaken on the Council's accounting and other records is set out in the following detailed report, together with any issues arising with recommendations further summarised in the appended Action Plan.

We have completed and signed the 'Internal Audit Report', having concluded that, in all significant respects, the control objectives set out in that Report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

Other areas where we consider that improved controls would further strengthen the existing position are detailed in the body of the report with resultant recommendations further summarised in the appended Action Plan.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. The Clerk has maintained the Council's accounting records using Excel based spreadsheets, which we consider appropriate for the level of annual activity. Given the relatively low level of annual transactions, we have agreed all transactions recorded in the cashbooks during the year to the supporting Nationwide bank statements. Finally, in this area, we have checked and agreed the year-end bank reconciliation, also ensuring the accurate disclosure of the year-end balance in Section 2, Box 8 of the year's AGAR. We note that the reconciliation prepared and presented to us is in round £s and suggest that in future the reconciliation is prepared to include pence to reduce the chance of any rounding errors arising in preparing Section 2 of the AGAR.

Conclusions

No issues arise from our work in this area warranting formal comment or recommendation.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation.

We are pleased to note that the Council formally re-adopted Standing Orders (SOs) and Financial Regulations (FRs) in May 2017. However, in examining the content of the SOs, we note that they are very limited in scope and bear no resemblance to the previous or latest NALC model document, the latter having only recently been published to take account of legislative changes affecting, inter alia, contracting and GDPR regulations.

With regard to the FRs, we noted in last year's report that the document had been reviewed in detail and brought into line with the latest NALC model document taking account of the relatively recent changes in Public Contract Regulations. We note that the FRs imply that formal tender action is only required for purchases above £25,000, with lower values for seeking formal and informal quotations. We consider this tender value potentially high for a Council the size of Chitterne and would suggest that, with total available funds of less than £5,000, a more realistic value for formal tender action would be at around £5,000 with similarly reduced values for formal quotations.

We have examined the Council minutes for the year to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability, also ensuring that, as far as we may be reasonably expected to ascertain, no actions / decisions of an unlawful nature have occurred or may be being considered.

We are pleased to note compliance with the disclosure requirements of the Transparency Code which became mandatory for smaller councils from 1st April 2015.

Conclusions and recommendations

Whilst we are pleased to record that no significant issues exist in this area, we consider that, as indicated above, the Standing Orders should be enhanced bringing them into line with best practice and the most recent NALC model document.

- R1. *Standing Orders should be further reviewed and ideally brought into line with the latest NALC model document.*
- R2. *Consideration should be given to determining a lower value at which formal tender action is required: we suggest a level of around £5,000 would be appropriate.*

Review of Payments

Our aim here is to ensure that: -

- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- The expenditure is formally approved by the Council and this is recorded in the minutes;
- The expenditure has been allocated to correct cost headings; and
- VAT has been appropriately identified and coded to the control account for periodic recovery

We have reviewed all payments made during the year to ensure that the above criteria have been met with no issues arising, other than noting that the final expenses payment to the former clerk (cheque no. 100587) included a number of vatable items, although no VAT has been identified in the cashbook for recovery from HMRC when the next reclaim is submitted. Where an invoice or till receipt bears a VAT registration number, the Council is entitled to recover the VAT incurred, which should be calculated as 1/6th of the gross cost. Furthermore, a major element of these expenses related to the purchase of printer cartridges and stationery from Argos. These are generally vatable supplies and, whilst the specific invoice in this case bears no VAT number, we suggest that for any such future supplies, care is taken to ensure that the supplier's VAT Registration number is acquired.

We are pleased to note that invoices and chequebook counterfoils are generally initialled by both signatories and that the cheque numbers are now being recorded in the approving minutes, all of which we consider best practice.

Conclusions and recommendation

No significant issues arise from this area of our review although we remind the new clerk that care should be taken to ensure that, where vatable supplies are purchased, the VAT Registration number of the supplier should be acquired in order that the VAT incurred may be reclaimed.

- R3. *Care should be taken to ensure that all recoverable VAT is identified with the relevant VAT registration number also acquired.*

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We are again pleased to note that the Council reviewed and re-adopted, in May 2017, the detailed financial risk assessment document.

The Council is insured by Zurich via Community First with appropriate cover in place: Public Liability stands at £10 million; Employer's Liability at £10 million and Fidelity Guarantee at £250,000, all of which we consider adequate for the Council's current needs.

Conclusions

No issues arise from this area of our review.

Budgetary Control and Reserves

In this area of our coverage, we aim to ensure that the Council has sound procedures in place for the determination of its annual budget; monitoring and managing available resources throughout the financial year.

The Council's minutes and other documentation provided for our review indicate that members have agreed the precept for 2018-19 at an unchanged value of £8,096.

We are pleased to note that members continue to receive full information of the Council's financial position at each meeting with detail of bank balances and payments since the last meeting provided and consider this an acceptable level of control for a Council the size of Chitterne.

At 31st March 2018, the Fund balance has decreased from £6,381 to £3,222. We note that this balance includes funds set aside for specific projects as discussed by members and sits comfortably within the generally recognised guideline of between three and six months' spending.

Conclusions

We are pleased to report that no issues arise in this area this year warranting formal comment or recommendation.

Review of Income

The Council receives limited levels of income other than the precept by way of allotment rents, occasional grants and donations, together with a small amounts of bank interest and VAT refunds.

We have checked detail of allotment tenants per the register of plot holders maintained by the clerk, ensuring that all income due has been recovered appropriately and banked in a timely manner/

In last year's report, we drew attention to the requirements of the adopted FRs (Section 9.3 refers) that allotment rents should be subject to annual review. We understand that a review was subsequently undertaken in May 2017, although the minutes do not indicate the outcome of that review.

Conclusions and recommendations

We are pleased to record that no significant matters have been identified, although we remind members that minutes covering the review of rents should indicate the outcome of that review even where no change is approved.

R4. *The outcome of members annual review of allotment rents should be minuted formally, even where no increase or other change is approved.*

Petty Cash Account

The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the clerk in connection with her work for the council are reclaimed and paid by separate cheque processed in the same manner as all trader payments.

Review of Staff Salaries

The former Clerk was paid her salary, together with an allowance for use of her home as the Council's "office", quarterly during the year. We have been provided with a copy of her revised contract pertaining to 2017-18, which indicates payment for increased weekly hours of 4½, as agreed by the Council at the May 2017 meeting. The contract records her salary as payable in accordance with a specified national spinal point, together with an annual stipend for use of her home, as also detailed in the revised contract. In checking the calculation of the quarterly gross salary due, we note that it has been based on 12 rather than 13 weeks, resulting in an underpayment.

We also note that the contract refers to the national salary hourly rate being applied, but is that pertaining to 2016-17: the 2016-18 national pay award was agreed in two stages payable from 1st April 2016 and then from 2017: this oversight has resulted in a further underpayment of the approved salary. Furthermore, on checking the quarterly payslips generated by the specific payroll software used by the Council, the gross amount paid is significantly below the incorrect (as indicated above) quarterly amount as recorded in the employment contract and that as calculated by ourselves/

We have verified that income tax has been deducted and paid over to HMRC at the appropriate rate according to the actual gross salary paid each quarter and up to the clerk's departure in early March 2018.

We note the appointment of a new clerk with effect from 7th March 2018 and have also reviewed her employment contract noting a relatively minor inconsistency in the hourly salary rate payable

with different values recorded in paragraphs 6.1 and 12.1: that in para 6.1 is the correct rate in relation to the approved and contract referenced national spinal point.

Conclusions and recommendations

The Council should review the salary paid to the former clerk in 2017-18 and determine whether it wishes to pay the apparent arrears due to her as a result of the above under-calculations of the quarterly salary payable. We have provided the new clerk with a separate schedule identifying the quarterly salary we consider should have been paid based on the approved employment contract detail.

The basis of the new clerk's salary should also be reviewed and the employment contract amended accordingly.

- R5. *When preparing staff employment contracts, the calculation of salary payable, be it paid monthly or quarterly, should be subjected to independent check and verification to ensure that no under or over-payments arise.*
- R6. *Based on our review of the former clerk's salary, members should consider whether to reimburse her for the apparent underpayments that have occurred in 2017-18 until her departure.*
- R7. *The new clerk's employment contract should be amended to ensure consistency in the hourly salary rate payable.*

Asset Register

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. In examining the records initially provided for our review, we noted that the value of assets differed significantly from that reported in the 2016-17 Annual Return. We have discussed this with the clerk who has sought further assistance from the previous clerk in establishing the true status of assets and identifying the correct value to be reported in this year's AGAR. No new assets have been acquired during 2017-18 and, consequently, the increased asset value should also be reported in Section 2, Box 9 for 2017-18 and the prior year, with "Restated" added in the 2016-17 the column header.

Many of our clients are now also developing a photographic register of exposed assets, such as street furniture: we consider this to be an example of best practice as it provides the Council with clear evidence of the condition of fixed assets and would assist in the event of any insurance reclaim or police investigation being necessary following damage to or theft of such assets.

Conclusions and recommendation

We are pleased to acknowledge the actions of the new clerk to resolve the apparent understatement of the Council's asset stock value in the previous year and consider that the value now assigned is accurate. We do however suggest that, in addition to the development of a photographic register of the Council's assets the asset register should ideally be expanded to include the following detail, although we appreciate that some such as the acquisition date may not be known: -

- *Date of acquisition*
- *Asset name / detail*
- *Siting of asset*
- *Purchase value (net of VAT)*
- *Serial number, where applicable*
- *Insured value (to assist in assessing budgetary requirements as and when replacement becomes necessary)*
- *Asset condition*
- *Date of disposal*
- *Value of any income received on disposal*

R8. *The updated asset register should be expanded to include, where known, the detail as set out in the body of the report, with the clerk or members examining the condition of each asset at least once annually updating the register accordingly.*

R9. *Consideration should be given to the development of a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary.*

Investments and Loans

The Council has no funds in investments, nor does it have any loans either payable by, or to it, at present. However, we take this opportunity to draw the Clerk and Council's attention to a current change in the requirement for production of a formal Investment Strategy: whilst this only becomes mandatory for Councils with retained funds in excess of £100,000, current NALC guidance indicates that, again in line with best practice, all Councils holding funds in excess of £10,000 should also develop an appropriate Strategy.

Annual Governance and Accountability Return (AGAR)

We have reviewed the content of Section 2 of the 2017-18 AGAR ensuring consistency with the underlying accounting records and updated asset register and are pleased to report that no additional issues have been identified in this area this year and have duly signed off the Internal Audit Report assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Corporate Governance		
R1	Standing Orders should be further reviewed and ideally brought into line with the latest NALC model document.	
R2	Consideration should be given to determining a lower value at which formal tender action is required: we suggest a level of around £5,000 would be appropriate.	
Review of Payments and VAT		
R3	Care should be taken to ensure that all recoverable VAT is identified with the relevant VAT registration number also acquired.	
Review of Income		
R4	The outcome of members annual review of allotment rents should be minuted formally, even where no increase or other change is approved.	
Review of Staff Salaries		
R5	When preparing staff employment contracts, the calculation of salary payable, be it paid monthly or quarterly, should be subjected to independent check and verification to ensure that no under or over-payments arise.	
R6	Based on our review of the former clerk's salary, members should consider whether to reimburse her for the apparent underpayments that have occurred in 2017-18 until her departure.	
R7	The new clerk's employment contract should be amended to ensure consistency in the hourly salary rate payable.	

Rec. No.	Recommendation	Response
Asset Register		
R8	The updated asset register should be expanded to include, where known, the detail as set out in the body of the report, with the clerk or members examining the condition of each asset at least once annually updating the register accordingly.	
R9	Consideration should be given to the development of a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary.	